

APL Removal – Australian Equities

Auscap Long Short Australian Equities Fund APIR: ASX0001AU

Summary

The **Auscap Long Short Australian Equities Fund** (the “Fund”) is managed by Auscap and was inception in December 2012. Auscap is a dedicated Australian equities manager with a focus on value and quality. The Long Short Fund is a high conviction portfolio that is typically invested in 30 to 60 securities. The Fund is structured as an open-ended unlisted registered managed investment scheme.

Reason for APL Removal

The Auscap Long Short Australian Equities Fund has undergone a significant transformation, removing its short book and rebranding as the Auscap High Conviction Fund. This strategic shift reflects a transition to a long-only Australian equities strategy, departing from its initial purpose as a long/short fund. The portfolio will now consist of approximately 40 long positions, with the top 20 stocks accounting for 80% of the portfolio and the remaining 20% allocated to the bottom 20 stocks. However, this structure, with its diluted tail, undermines the claim of being a high conviction offering. Atchison recommends the manager eliminate the tail positions to reduce the research burden on the team and deliver a more focused, impactful portfolio. Additionally, the Fund's long-term track record is no longer relevant given the strategy changes, and its recent performance lags peers in the long-only Australian equities space.

Concerns also arise around the Fund's team and resources. With just two team members and competing responsibilities, including managing the newly launched Ex-20 Fund, the team appears under-resourced compared to peers. The process relies heavily on the team's industry experience and company contacts rather than a structured approach, raising further questions about scalability and consistency. Atchison no longer sees a compelling investment case for the Fund, as it fails to align with the requirements of the long/short bucket and has an outsized fee relative to the long-only peer group. Atchison believe alternative options in the Australian equity long/short space should be considered to better meet strategic objectives.

Fund Overview

- **Manager:** Auscap
- **Fund Inception Date:** December 2012
- **Firmwide Assets Under Management:** \$375mn (as at 31/10/2024)
 - **Auscap Long Short Australian Equities Fund** \$360mn
- **Investment Strategy:** The Manager is a quality biased focusing on buying high quality, growing businesses with a sensible valuation filter. The manager's philosophy can be best described as quality at the right price (QARP).
- **Benchmark:** All Ordinaries Accumulation Index

BUSINESS

The firm is owned and operated by the team and manages \$375mn exclusively sourced from retail investors. Auscap currently operates two strategies: the Auscap Long Short Australian Equities Fund and the recently launched Auscap Ex-20 Australian Equities Fund. In recent years, the firm has been trying to expand its product offering, though a previously launched global equities strategy has since been closed. The launch of the Ex-20 Fund marks the latest effort in this expansion. Atchison have concerns around whether Auscap can attract sustainable flows of FUM while maintaining focus on investment performance, given the firm's current emphasis on growth.

Team

The team is led by Portfolio Manager Tim Carleton who founded the business in 2012. Carleton is highly experienced and was previously an executive director at Goldman Sachs where he was responsible for managing an Australian equities portfolio. Providing support is Deputy Portfolio Manager, Will Mumford. Mumford joined in 2018 with an investment banking background, he is assessed as capable, however, still developing at the portfolio manager level. Gavin Rogers is also listed as part of the team, although his role is “investment specialist” and it is believed he is more involved in distribution and is not involved in the research and portfolio construction process.

Team of two is considered small and under resourced given the additional competing focus on the recently launched Ex-20 Fund. Co-tenure is also lower than peers. Additional resourcing would be viewed positively and help alleviate concerns around workload and competing responsibilities.

Process



The Auscap High Conviction Fund seeks investment ideas from Australian listed equities, primarily focusing on larger-cap stocks. While the ex-20 strategy is benchmark-aware, the long-only strategy remains benchmark-unaware. The Manager adheres to a quality-at-the-right-price (QARP) philosophy, prioritising high-quality, growing businesses with sensible valuations. Idea generation involves quantitative screening, extensive travel, and leveraging Carleton’s market experience. The research process emphasises competitive advantages, ROIC, and cash flow, supported by in-depth valuation analysis. However, some reliance on sell-side research exists, and the process is viewed as less structured than peers.

Following the removal of the short book, the portfolio now consists of 40 long positions, with 80% of the weight concentrated in the top 20 stocks and the remaining 20% allocated to a diluted tail of 20 stocks. This structure undermines the claim of being truly high conviction. Atchison recommends eliminating the tail to reduce the research burden and enhance portfolio focus. The current team size and competing responsibilities further highlight the need for a more streamlined and impactful approach.

Fees and operational considerations

- **Management Fee:** 1.69% p.a.
- **Performance Fee:** 15.375% above the Benchmark. This includes a high-water mark with no re-set period.
- **Liquidity:** Daily applications and redemptions.
- **Capacity:** The Fund invests across the ASX 300 and is expected to remain in the mid-cap region of the market. Capacity is not a concern at current levels.
- **Minimum Investment:** \$10,000
- **Responsible Entity:** Auscap (related party)

Performance – 31/12/24

Customise Columns	1m ↑↓	3m ↑↓	6m ↑↓	1yr ↑↓	Ann. 3yr ↑↓	Ann. 5yr ↑↓	Ann. 10yr ↑↓
 Auscap High Conviction Australian Equities TR in AU	-4.25	-2.05	6.88	9.64	4.41	12.50	10.93
 Index S&P ASX All Ordinaries TR in AU	-3.07	-0.86	6.93	11.44	6.90	8.31	8.80

The Fund has underperformed over the past year. Due to recent changes in strategy, including the removal of the short book, its long-term track record is no longer relevant. The absence of leverage and reduced flexibility in long exposure means the Fund's strategy no longer aligns with what Atchison seeks in the long/short bucket. Consequently, it should now be compared to long-only Australian equity managers, where it has also underperformed its peers over the past year.